The Nation

INSURANCE SUPPLEMENT.

SATURDAY, JUNE 21, 1919.

THE CANADA LIFE
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Its financial position is unusually strong, and is under the strictest Government supervision.

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At the end of last year the Company carried forward over £1,500,000 of undivided surplus.

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Claims Paid Exceed £5,000,000

The Nation

INSURANCE IN WAR TIME.

The effect of war on finance is something like the effect of high explosive on bricks and mortar, very destructive, but very erratic and incalculable. Before 1914 nobody could have worked out in theory the actual results of a four years' European war. Anyone who tried it must have failed—and in nothing would he have failed more magnificently than in insurance. He would probably have foreseen a dismal period in which premiums dwindled and losses increased, in which the moral hazard grew steadily worse and shareholders watched the price of their insurance securities fall from one low record to another. As a Lloyd's underwriter, who had achieved considerable success in business, said in 1913: "I am safe for life but for one thing—a European war. That would mean ruin." In 1919 he is probably four to five times as rich as he was six years ago, for the disaster that he feared so much has made him a very rich man. As a marine underwriter he derived more direct benefit from the war than his confrères in other departments of insurance, but prosperity has not been confined to the marine market. It has extended to all forms of insurance except life (which stands alone), and it is reflected in the extraordinary rise that has taken place in the price of insurance shares since the war broke out. The following table gives some idea of the appreciation that has taken place, and the money that judicious speculation has enabled some men to make out of insurance shares in the last five years:—

	1914	1919	Rise
Atlas	7¾	19	11¼
British General	13/9	45/-	31/3
Commercial Union	27¼	59	31¾
Employers' Liability	14¼	48	33¾
London & Lancashire Fire	34	53	29
Merchants' Marine	3½	14½	11
Motor Union	7¼	145	137¾
Norwich Union Fire	32	74	42
Phœnix	7½	12½	5
Royal Exchange	212½	420	207½
World Marine	1½	12	10½
Yorkshire	5	11½	6½

In spite of these very remarkable price movements it cannot fairly be said that insurance companies or underwriters profiteered during the war. In many departments their charges never rose at all, and where rates were put up the rise was necessary to meet an enormously increased risk that nobody could gauge and that nobody but a man of courage and enterprize would have entertained. The big British companies which had for years followed a conservative and prudent policy were in a very strong financial position when war overtook us, and it is to their strong policy in the past and their able present management that their prosperity in these troubled times is due. We may perhaps with great diffidence hazard the theory that troubled times are usually good for insurers, because they provide the public with security against anticipated troubles, and so do a bigger trade when the public is anxious and disturbed than when things run smoothly and the future looks serene. The day may come when this theory is disproved, but at the present moment it must be a comforting one for insurers.

Fire Insurance.

It is a favorite saw of fire managers that if the moral hazard were eliminated fire premiums could be reduced by 50 or 75 per cent. This argues a rather low view of human nature, but it is certainly a fact that when commodity prices are rising and stocks are worth more than their book value fires are not as common as in times of depression and low prices. It is not unnatural, therefore, that the war years, which were years of ever climbing prices, should have been good for the fire departments of our big tariff offices and that the fire funds in most of the accounts should have shown a constant increase. On the whole the past five years have been good fire years. America, the dark horse of fire business, has behaved pretty well, and with the exception of a disaster in West Africa the only very big foreign fire was the calamitous outbreak in Salonica, which caught some people in London rather badly. And while fire losses have been comparatively small fire premiums have been extremely large, not because rates have risen, but because values have increased. The enormous rise in prices and the aggregations of big engineering and other stores have raised the insurable interest of the great majority of merchants and manufacturers, and the result is seen in the accounts of the fire departments published annually by the offices. An interesting comparison may be made between a typical pre-war year and the figures of a recent period, and a few figures of premium incomes may be worth reproducing. The fire incomes of a few offices, taken at random from the list of British companies, show the following increases between 1910 and 1918:—

	1910	1918
	£	£
Alliance	1,307,482	1,615,880
Commercial Union	3,139,967	5,262,477
Liverpool, London & Globe	2,788,849	4,060,777
London	657,415	1,231,617
London & Lancashire	1,555,809	2,437 223
North British	2,208,660	3,083,466
Phœnix	1,410,001	1,984,155
Royal	3,895,074	5,540,400
Royal Exchange	809,368	1,275,924
Sun	1,471,197	2,026,380

There has been a general rise in income of 50 to 80 per cent.—a very remarkable record for eight years. Losses and expenses have naturally risen, too; but the loss ratio is for the most part not higher now than it was in 1910, so that the offices working on a much bigger turnover find themselves at the close of their financial periods with a far better result. The percentage remaining about the same, actual figures have improved.

Before leaving the subject of fire insurance we may emphasize a point that the offices have been driving home to the public for the last four years—that as values have risen all insurance values ought to be reconsidered. The prudent merchant has doubtless done so without being told, but there are very few householders who would not find themselves under-insured if their house and furniture were destroyed by fire to-night.

Accident and Employers' Liability.

Here, again, the offices have been working under favorable conditions owing to high values and partly to an improved moral hazard. The manager of an accident department deriving most of his income from employers' liability, was usually in the pre-war days an anxious and a harassed individual, for there was scarcely a form of insurance more difficult to conduct with profit than employers' liability. Since 1914 on the contrary it has been wonderfully profitable, thanks entirely to the great increase in wages. The position is peculiar. In the old days a workman was entitled to claim under the Act weekly payments of half wages not exceeding 20s. per week, and the employer paid by way of premium to his insuring company so much per cent. on his wages bill to cover *inter alia* this weekly sum of 20s. To-day his wages bill has enormously increased; his premiums have increased in proportion; but his liability to the workman for weekly payments has increased only from 20s. to 25s. This works out to the advantage of the insurer in two ways. First the weekly payment is a far smaller proportion of the premium than it used to be; and second there is far less inducement for the workman to malinger. If a man is earning £2 a week it may be good business for him to go sick and draw 20s. while he is away. But let him earn £5 or £6 a week and he will be much less willing to go sick for a weekly payment of 25s. The importance of this moral factor is very great, for it is unfortunately true that workmen like other human beings appreciate holidays at other people's expense, and compensation whether for sickness or for unemployment tends to encourage the evil it is meant to remedy. At present the chief interest of

the employers' liability insurance is how long it will be before Parliament makes radical changes in the liability of employers.

Marine Insurance.

The recent figures of marine underwriting read like a fairy story, and a glance at the table of share prices given above will show that the securities of marine companies have appreciated more than any other. The sensational rise in the Motor Union from £7 to £140 is due mainly to the success of the company's marine department, started in 1915, to take advantage of the war risks, while the rise in World Marine shares has been scarcely less remarkable. The most curious thing about war underwriting was that every time conditions became worse and the German submarines more active, underwriters' profits increased. Indeed, the finest thing that ever happened for the marine underwriter—if we judge things merely from the selfish point of view—was the adoption by Germany of its unrestricted submarine campaign. For a month or two underwriters lost money, but then as rates rose to meet the greater peril, losses were wiped out and profits were made on a scale hitherto undreamt of. So we have the curious paradox that 1917—the blackest period for British shipping—was the best underwriting period of the whole war. So good, in fact, were the results achieved about this time that all sorts of fresh competition was started, new companies, both British and foreign, springing up to share in the harvest of big premiums. A year ago there was enough business to feed everybody—the new underwriters as well as the old—but to-day things are very different, and the competition for marine business is very keen. It is unlikely that big profits will be made out of marine insurance in the next few years, but those who were underwriting throughout the war can carry through some lean years out of the accumulated profits of the last five.

LIFE INSURANCE.

A Few Notes for the Intending Insurer.

Life insurance has been termed "a legitimate gamble," but it is doubtful if the coiner of this definition can be given credit for a great deal of logic in framing it. In one sense only, and that a very narrow one, does it resemble a bet, the individual wagering against his chances of longevity whilst the assuring office wagers in favor of them. This reasoning, however, regards the insurance transaction as complete in itself, so that the early death of the assured may be considered profitable to his estate, and as this can only be realized in cases of over-insurance, the root of the fallacy becomes obvious. What life insurance does is to eliminate the financial uncertainties where the duration of human life is a factor by combining a sufficient number of such risks to ensure that the averages of established experience will be approximately realized. Nowadays life insurance is so much a part of general civilization that for the individual it is not so much a question of whether he should be insured but rather for how much, and in what form of policy and with what office he should cover those responsibilities which are likely to arise upon his death. Upon these questions, so far as is possible within the scope of this article, we hope to give the intending insurer a little guidance.

In the first place, for how much should the ordinary man insure his life? Roughly we should say that where a man's income is wholly or mainly earned, one and a half times his average annual income ought to be the minimum. The young man without dependants may say that this is needlessly high in his case, but we may remind him that life insurance is essentially a provision for the future. He may have no dependants at the moment, but when he marries he will have so many additional expenses that the higher premiums required on account of his increased age will then appear a heavy burden, and may result in smaller insurance than he would really like to have at that time. If, on the other hand, he covers himself to the extent mentioned, the premiums will be relatively lighter and not being in the nature of an additional annual expense, will not bear upon him so heavily when, insurance having become a duty, he will probably be thinking of raising the amount because the original sum will no doubt have become disproportionately small, both as compared with his annual earnings and his responsibilities. As to the maximum of desirable insurance, the income-tax fixes one-seventh of the total income as the limit beyond which the premiums will not be allowed as a deduction from taxable income, and there is not likely to be any incentive to go beyond this limit except in cases where financial obligations may have been contracted late in life and the premiums will necessarily be higher in relation to the sum to be assured than would be the case at lower ages. Such a case might arise in connection with a desire to provide for death duties, especially as the rates in respect of large estates have been raised so much under the last Budget. Insurance, in fact, provides the only means of preserving large estates with the death duties at their present figures, and the argument that they act unfairly when an estate passes by death in quick succession is seen to have but little solid foundation if only the dictates of ordinary prudence are followed and the heirs-apparent insured for suitable amounts, so throwing the burden of the duties upon the estate in the form of an income-tax and avoiding altogether the levy upon its capital value which the duties inflict.

In these days of house shortage the man of moderate means has often no other choice than to buy his house, raising the money by a mortgage if necessary, and this is an obligation which is very much lightened as regards his dependants if it is covered by life insurance. The mortgage interest and the insurance premium will not as a rule amount to as much as the rent, and the insurance gives the satisfactory feeling that in the event of early death the property will belong to his dependants free of encumbrance. The offices have also made quite a feature of War Loan purchases in the same way.

Considerations such as the foregoing lead us naturally to the question of the kind of insurance policy to be taken out, and in the case of the death duties or the mortgage there can be no doubt that the whole life non-profit policy meets all requirements. It provides the biggest amount of insurance for the lowest annual cost, and though as a governing rule it may be stated that there is no cheapest form of life insurance, because the insured gets just as much in the way of benefits as he pays for, still the whole life non-profit gives a guaranteed sum assured which in the early years of the insurance when it is probably most wanted, is secured for a very small annual payment. The whole life non-profit rates some few years ago were rather high, the idea prevailing in actuarial circles that only under-average lives were attracted to this class of policy because of the stationary nature of the sum assured, no matter how long the assured might live. One office, however, broke away from this tradition by advertizing the advantages of cheap first cost insurance and quoting rates which were claimed to be lower than any other first-class office. As the result it secured a great deal of business on lives which were quite up to the ordinary standard. Other offices followed suit with low rates, so that there is now very little to choose between the rates offered by several of the leading companies under their whole life non-profit rates, and the assured really does get very good value for his money under this table. All the same, to the young man who reckons his chances of long life at or above the normal, the prospect of paying the same premium throughout his life without any hope of an increase in the sum assured or relief in respect of the premium, does not seem particularly alluring. For him there are the various attractions of the whole life limited payment policy, the with-profits policy, and the endowment assurance. In popularity these classes rank in opposite order to that in which we have set them out. However, the non-profit limited payment policy, as its name implies, is one under which for a small increase in the premium as compared with the ordinary whole life policy, the liability for premiums is restricted to a fixed number of years, thus protecting the holder against undue longevity and at the same time relieving him of an annual charge in his later years, when as a rule he will no longer be following a calling. Next comes the with-profits policy, under which payments may either continue

for the whole of life or be limited in number. A with-profits policy is entitled to share in the profits of the company derived from its life assurance business, and most offices now divide these on what is known as the "compound reversionary bonus principle," which means that the profits as ascertained by the company's officials are used to increase, by a certain percentage, the sums assured and any bonuses which may have been added to them in the past, so that an old policy gets a relatively larger bonus than one which has been only a short time in force, thus giving some measure of compensation to the older policy-holders who by the fact of their survivance have enabled the office to disclose a profit after meeting the claims of those who have died in the earlier years. Further discussion of the merits of the with-profits policy must be deferred for a moment until we come to consider bonus prospects.

The endowment assurance, which is quite a modern departure, breaks away from life assurance pure and simple, for it provides for the sum assured to be paid definitely at the end of a fixed number of years if the assured be then alive, or on his death should that occur within the stated term. It is this combination of life assurance with thrift which has proved so popular. Very often the necessity for a life assurance has passed away by the time the age of 55 or 60 is reached, and the receipt of a lump sum is very useful as a provision for old age. If desired it may be used to buy an annuity or pension, and the endowment assurance therefore is generally a far better bargain than any of the fantastic schemes with innumerable "options" which were boomed in the years which followed the invasion of this country by American life insurance companies. The beauty of these schemes from the companies' point of view was the difficulty which the intending proposer would encounter in an endeavor to compare their relative merits as regards cost with the rates quoted by other companies, since novelty and originality were their essence, the companies reckoning upon making substantial profit out of them.

This brings us to the consideration of the bonus prospects of British offices, for the relative merits of the with-profits policy cannot be judged without endeavoring to peer into the future to some extent. All established British offices, to their credit it must be said, have resolutely set their faces against setting out estimates of future bonuses without clearly telling people that the figures were only estimates. Rather have they concentrated upon advertizing their consistently high bonus records of the past, with justifiable pride in their attainment. As the result of the war, however, this record has been somewhat spoilt, and not a few holders of with-profit policies taken out within recent years have felt that they have made a bad bargain, for various factors have severely affected the available profits. In the first place there have been the direct losses due to war casualties and then to the influenza epidemic, both of which occurred mainly among lives aged between 20 and 30, and therefore involved policies against which comparatively small reserves had been accumulated by the companies. Then the rise in the rate of income-tax has been a serious burden upon profit-earning capacity, for a life insurance company must regard the income from its invested funds in exactly the same light as the premiums it receives if it is to maintain its solvency and meet all its liabilities as they fall due. Yet a life insurance company is not taxed upon its profits, but upon that portion of its business income which is represented by income from investments, an amount which in all normal circumstances will be very much greater than the amount of its profits. Some relief was given under the Finance Act of 1915 by allowing companies exemption from tax on so much of the income as is disbursed in the form of expenses of management and commissions, provided that this does not bring the assessment below the amount of the actual profits. The net result, however, is to reduce the average rate of interest earned upon the funds, and it is from the surplus interest earnings over and above the rate assumed in the actuary's calculations that life offices look for a very considerable amount of their profits. The high mortality may be regarded as a temporary influence, but nevertheless it has had to be provided for out of accumulated funds,

and has affected the current bonuses. The reduction in the net rate of interest earned may be regarded as having had very little influence on current bonuses, but as being an adverse factor for the future. Then, lastly, there is the serious depreciation in security values during the war. In many cases satisfactory surpluses and quite respectable bonuses would still have been shewn but for the huge amount of depreciation which had to be written off. This has been the main cause of the poor bonus results, or absence of bonuses, over the war period. As regards the future, however, there is the compensating factor that investments once written down return the companies a higher rate of interest on the funds, so increasing the margin of possible profit from this source and favoring the future outlook as regards bonuses. Some companies have taken part at least of this profit into account by assuming a higher future rate of interest than they have used in the past when making their valuations, and though in the majority of cases this may have been quite justifiable, still, it is obvious that other things being equal, the company which estimates its future interest earnings at a low rate has better prospects of securing a profitable margin above that rate than does a company assuming a higher rate in its caluculations.

Turning now to the difficult question of which office to insure in, we may give one or two hints as to the kind of offices in which not to insure. In the first place go to a British office. Quite a number of good reasons might be put forward in support of this advice, even were British offices not quite so good as some foreign companies—but they are, and better. For one thing, the income-tax allowance is only granted in respect of premiums paid to a company established in this country. The next thing is to avoid very young companies. This sounds rather hard on new and struggling concerns which may be thoroughly well managed, but a man insuring his life wants the best, and a young company cannot offer the advantages of stability and low management expenses which the old-established institution can do. The difference between "mutual" and "proprietary" companies, the former having no shareholders to take toll of the profits, does not amount to much in practice, the well-managed proprietary company frequently shewing as good a record as a mutual concern of approximately similar standing. The matter of management expenses is very important, but the mere ratio of expenses to premium income is not a sufficient guide as to the extravagance or otherwise of the management. New business is relatively much more costly than the collection of renewal premiums, the chief item being the agent's commission on securing the case. A rough method of comparing one office with another is to deduct 90 per cent. of the year's new premiums from the total premium income and also from the total management expenses and commission, and then to work out the ratio between the balance of the premiums and the remaining expenses. This should give a figure not much above 7 or 8 per cent. at the highest. Some companies which pay no commissions manage to keep their total expenses below this ratio, but these companies are generally less progressive, though a policy taken out with them is usually a first class investment. Every year insurance companies are obliged to file with the Board of Trade detailed accounts prepared in a stereotyped form, and whenever they make a valuation, which must be at least once in five years, full particulars as to the methods adopted in such valuation have to be set out. Some of these details are beyond the non-expert's powers of comprehension, but from such figures as the rates of interest earned and assumed, and the valuation balance sheet, shewing how much surplus was available and how it was distributed, a very good idea of a company's true position may be gathered.

Finally, we would impress upon every proposer the necessity of proving his age to the company at the time he makes his proposal. The company will always insist on this before meeting a claim under the policy, whenever that may occur, and if the age has been understated, quite inadvertently, the difference in the premium as compared with the correct one for the real age, will be deducted together with interest, possibly making an appreciable difference in the sum payable.